

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 7074**

**BILL NUMBER:** HB 1574

**NOTE PREPARED:** Feb 20, 2005

**BILL AMENDED:** Feb 17, 2005

**SUBJECT:** PERF Minimum Benefit, COLA, and Thirteenth Check.

**FIRST AUTHOR:** Rep. McClain

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill (1) extends the minimum monthly pension benefit of \$180 for certain retired members of the Public Employees' Retirement Fund (PERF) to members who retired before December 1, 2004 (instead of December 1, 2003); (2) provides certain retired members of PERF a supplemental "thirteenth check" in 2005; and (3) a cost-of-living adjustment (COLA) in 2006.

**Effective Date:** July 1, 2005.

**Explanation of State Expenditures:** [Note: All estimates for the state impact include, in addition to the cost associated with PERF members, the cost of increases associated with the Excise Police and Conservation Officers' Retirement Plan and the Legislators' Defined Benefit Plan, which are statutorily linked to any COLA increases provided to PERF recipients. The portion of the liability and costs associated with the two smaller retirement plans is very small compared to the PERF impact.]

(Revised) *Summary of State Fiscal Impact for PERF COLA:* The bill provides a 2.0% COLA for members, survivors, and beneficiaries of PERF payable after December 31, 2005, who retired or were disabled prior to July 2, 1990, and 1.5% who retired or were disabled after July 1, 1990, and before January 1, 2005. The minimum increase would be \$5 monthly. Current statute has no provision for a COLA in 2006. Consequently, the fiscal impact of the 2006 adjustment provided in this bill, over what is in current statute, is estimated to result in an **additional unfunded accrued liability of \$19.7 M**. This represents an **additional annual cost of about \$1.52 M (about \$760,000 for FY 2006 and \$1.52 M in fiscal years thereafter, representing approximately 0.11% of payroll)**.

(Revised) *Summary of State Budget Impact for PERF COLA:* Although a COLA for 2006 is not provided in

current statute, PERF calculates the contribution requirement for the state *in anticipation of passage* of a 2% COLA for CY 2006. Consequently, the budgetary impact from the 2006 adjustment provided in this bill under the contribution rate that is calculated is estimated to result in a **reduced unfunded accrued liability of \$2.3 M**. This would result in a **reduced annual funding requirement of about \$180,000 (about \$90,000 for FY 2006 and \$180,000 in years thereafter, representing approximately 0.01% of payroll)**.

*Summary of Fiscal Impact of 13<sup>th</sup> Check Provision:* This bill also provides for a 13<sup>th</sup> check to be paid on or before December 1, 2005, to any member (or survivor or beneficiary) who retired before January 1, 2005, and was entitled to receive a monthly benefit on November 1, 2005. The amount is to be equal to 12 times the monthly pension portion times 2% if retirement was prior to 1990, or 1% if the retirement occurred from 1990 through 1994. This benefit is available only to PERF members and does not become part of the base for pension calculations.

The estimated **increase in unfunded accrued liability for FY 2006 is \$1.6 M** due to the 13<sup>th</sup> check provision. The increase in **annual funding required is \$120,000, representing 0.01% of payroll**. This impact is in addition to the state fiscal impact for the COLA described above.

All estimates are based on the July 1, 2003, PERF actuarial valuation. The state General Fund contributes about 55% and various dedicated funds contribute approximately 45% of the personal services expenditures of the state budget.

#### **Explanation of State Revenues:**

**Explanation of Local Expenditures:** (Revised) *Summary of Local Fiscal Impact of PERF COLA:* The bill provides a 2.0% COLA for members, survivors, and beneficiaries of PERF payable after December 31, 2005, who retired or were disabled prior to July 2, 1990, and 1.5% for those who retired or were disabled after July 1, 1990, and before January 1, 2005. The minimum increase would be \$5 monthly. Current statute has no provision for a COLA in CY 2006. Consequently, the fiscal impact of the 2006 adjustment provided in this bill, over what is in current statute, is estimated to result in an **additional unfunded accrued liability of \$23.5 M**. This would result in an **additional annual funding requirement of about \$1.78 M (representing approximately 0.07% of payroll)** over what is provided for in current statute.

(Revised) *Summary of Local Budget Impact of PERF COLA:* Although a COLA for 2006 is not provided in current statute, future PERF funding requirements are calculated *in anticipation of passage* of a 2% COLA for CY 2006. Consequently, the budgetary impact for the 2006 adjustment provided in this bill, under the contribution rate that is calculated for political subdivisions, is estimated to result in a **reduced unfunded accrued liability of \$2.8 M**. This would result in a **reduced annual funding requirement of about \$220,000 (representing approximately 0.01% of payroll)** under what would be required to support the assumed COLA.

*Summary of Fiscal Impact of 13<sup>th</sup> Check Provision:* The 13<sup>th</sup> Check provision results in an estimated increase in unfunded accrued liability for CY 2005 is \$1.9 M. The increase in **annual funding required is \$150,000, representing 0.01% of payroll**. This impact is in addition to the fiscal impact to local units for the COLA described above. (See *Explanation of State Expenditures* for details on the 13<sup>th</sup> Check provision.)

#### **Explanation of Local Revenues:**

**State Agencies Affected:** All

**Local Agencies Affected:** Those units with members in PERF.

**Information Sources:** Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317-576-1508.

**Fiscal Analyst:** James Sperlik, 317-232-9866.

## **DEFINITIONS**

**Cost-of-Living Adjustment** - An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

**Funding** - A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

**13th Check** - A 13th check is an annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes. Unlike a cost-of-living adjustment, the amount of this supplemental retirement allowance does not increase the pension base.

**Unfunded Actuarial Liability** -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.